



Research in Brief

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Revenue Reform and Statebuilding in Anglophone Africa

Context, content and consequences of revenue reforms

Contrary to common assumptions, governments of African anglophone countries have long been relatively successful in collecting tax – taking into account the revenue potential of their economies. Major tax reforms have been undertaken over the past two decades. They have been prompted by the need for new revenue sources to compensate for steep reductions in tariffs, and promoted by international donors. Reforms have included:

- i) The widespread introduction of VAT;
- ii) The adoption of advanced tax administration reforms based on low cost ICTs, including the establishment of large taxpayer units, greater use of self-assessment coupled with better verification, and measures to make tax paying easier and less contentious for taxpayers;
- iii) The creation of semi-autonomous revenue authorities (SARAs), with the intention of freeing them from bureaucratic straitjackets and political interference. In practice, however, while SARAs have routine operational and managerial autonomy, politicians can still intervene in detail.

Many of these reforms have had unforeseen, indirect consequences. For example the

challenge of introducing VAT stimulated professional engagement across frontiers, and required revenue agencies to recruit and train highly skilled professional staff. It also accelerated the trend away from physical verification towards accounts-based taxation, separating assessment from collection with potential to reduce malfeasance. Reforms have also contributed to significant labour market changes for African tax professionals: SARAs, with greater freedom to hire and raise salaries, have been able to attract specialist and managerial talent from the private sector. Senior revenue staff are now part of an increasingly well-connected elite of transnational tax, specialists. They are able to move between public sector appointments, international agencies and private sector posts, including fast-expanding international accounting firms and banks. These and other indirect effects of revenue reforms in a globalised context have implications for state building.

Revenue reforms and statebuilding

The paper considers the impact of reforms on two aspects of statebuilding: strengthening the capacity of formal state organisations; and influencing relations between state and non-state actors.

While reforms have improved the functioning and influence of revenue authorities, this ➤

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does not amount to a major improvement in overall state capacity, for four main reasons:

- i) Reforms have done little to increase revenue collection (although without them things might have been worse). No single African revenue authority has shown continuously improving performance for as much as a decade.
- ii) Reforms have focused on central government and national level issues, and on relations with larger companies. This has left SARAs ill-equipped to engage with small-scale, rural and small town enterprises, or help sub-national governments raise revenue more effectively.
- iii) The focus on reforming revenue collection agencies has not been accompanied by corresponding improvements in tax policy units within Ministries of Finance. Among other consequences, this has made it more difficult to restrain the granting of unjustified, ad hoc tax exemptions by politicians. These exemptions are significantly eroding the tax base.
- iv) With the notable exception of Rwanda, reformed revenue authorities have not generally served as a training ground for high quality, motivated staff for the public sector more broadly. Giving SARAs greater freedom over staff pay and management, coupled with increasing transnational career opportunities for senior tax professionals, has undermined the potential “spill-over” effect.

If statebuilding is viewed as a process of changing relationships between state and non-state actors, the impact of revenue reforms has been more ambiguous. The paper focuses on relationships between governments and larger, formally organised businesses which are their dominant revenue providers. On the one hand, reforms to revenue authorities, including the adoption of advanced tax administration practices, means they are better placed to tax the organised private sector in a more Weberian, consultative and consensual manner. This improves the chances of

sustaining the recent growth of private investment in Africa. On the other hand, while increased interchange of staff with private sector companies can enhance the capacity of revenue authorities, it also heightens the risk that private interests will colonise the domains of tax policy and administration. This could make it more difficult for governments to raise revenue collection, and weaken the impetus to tackle big revenue leakages including exemptions, and transfer pricing practices of transnational corporations. While tax collection may thus be less corrupt in the more direct sense of the term, it could be considered more corrupt in a structural sense.

Overall, while recent reforms have made positive contributions to state building, these have not been as great as proponents expected.

Implications for policymakers

These include one practical policy issue, and two points for reflection:

- i) If centralised revenue authorities are ill-equipped to reach out to small-scale enterprises in order to generate much-needed revenue sources for subnational governments, policymakers may need to consider alternative institutional arrangements.
- ii) Despite the generally valid caution against attempting to transfer best practice models developed in OECD countries to developing country contexts, the transfer of some tax administration practices, driven by the adoption of mainstream, low-cost ICTs, has proved appropriate to Africa.
- iii) The unexpected consequences of tax reform efforts is a good reminder for policymakers to be alert to the indirect effects of their interventions; and to remember that mechanisms of institutional change are likely to be more subtle and complex than implied in simple cause- effect models.

Further reading

Moore, M. (2013), *Revenue Reform and Statebuilding in Anglophone Africa*, ICTD Working Paper 10, Brighton: May

Credits

This paper was written by **Mick Moore**, Professorial Fellow in the Governance Team at IDS and Chief Executive Officer of the ICTD. He specialises in the interaction between money, public finance and politics.

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